



Office of Inspector General

Audit Report

Summary Audit Report on The Low Documentation Loan Program Report No. 8-7-F-005-002

November 24, 1997

S u m m a r y

The former SBA Administrator requested an audit to determine if the results of a second review of LowDoc loans would be consistent with prior audit findings. The Administrator's request was honored by conducting a series of audits at the Atlanta, Santa Ana, Washington, and Dallas District Offices. The objectives of the audits were to determine whether loans were processed and disbursed and funds used in accordance with SBA requirements. The audits were based on statistical samples of 30 LowDoc loans approved by each of the four district offices from the program's inception in December 1993 to September 30, 1996.

The audit concluded that the findings were very similar to the results of the first audit of the LowDoc Program. For the purpose of this audit, a deficiency was defined as a noncompliance by lenders or district offices with either the Authorization and Loan Agreement (A&LA) or other SBA processing and disbursing procedures.

Based on a statistical projection, the audit estimated that of the 3,606 loans

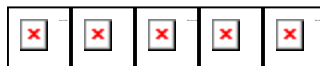
approved by the four district offices, at least 351 loans valued at \$17.9 million should not have been approved under LowDoc procedures. As a result of the deficiencies, some or all of SBA's guarantees for these loans could be in jeopardy and the subsidy rate or fees to lenders and borrowers could increase. The audit results indicated that lenders' performance improved as guidance became more detailed and as they gained more experience with the LowDoc Program. After detailed guidance was issued in April 1996, none of the loans had deficiencies that would preclude loan approval.

Audit reports issued to the four district offices included recommended actions for loans whose deficiencies should have precluded approval. It was recommended that the Acting Associate Administrator for Financial Assistance evaluate the proposed actions by the district offices in response to recommendations included in OIG Audit Reports to specifically ensure that the proposed actions will recover guarantee authority and payments inappropriately provided by lenders. Further, it was recommended the Acting Associate Administrator develop and implement a formal training program for new lenders on how to process LowDoc loan applications.

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